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# THE BRITISH TAXES ON LAND VALUES IN PRACTICE

## SUMMARY

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It is now nearly six years since Mr. Lloyd George startled the British people, and the economists of the English-speaking world, by his proposals for a new system of taxes on land and allied forms of wealth, and a valuation of all the real property in the United Kingdom. This valuation was expected to disclose a vast and hitherto untapped reservoir of taxable income — the so-called unearned increment — and also to be of great assistance in the collection of existing taxes, both national and local, besides furnishing useful information to statisticians and others interested in agriculture, housing conditions and similar questions. It is of interest to inquire to what extent these expectations have been converted into facts.

## I. THE VALUATION

The valuation, begun in the spring of 1910, will not be complete, even as regards provisional valuations, before June, 1915, and the date when these provisional valuations will have been legally established cannot be even approximately stated. There is great reason to believe that as a result of recent judicial decisions the values of nearly all agricultural properties, and of a great many others, must be calculated over again on a different basis.<sup>1</sup>

The last report of the Commissioners of Inland Revenue<sup>2</sup> states, with reference to the case of *Commissioners of Inland Revenue v. Smyth*: "The result of this decision, which reversed, on these two points, the practice upon which the valuations had hitherto been made, was the suspension of all valuations of land in which an element of agricultural value was present." The two points referred to were: (1) that in calculating gross and total values the value of the tenant's interest in unexhausted manures or tillages must be included; and (2) that in arriving at full site value the land must be deemed to be divested of grass.

Other decisions also may be expected to make a considerable difference in valuations, if the owners affected think it worth while to take advantage of them. The most important is *Commissioners v. Clay*, in which the Court of Appeals held, May 28, 1914, that in calculating gross value it is necessary to take into account the value which a property has for a particular purchaser over and above what it may be worth to the general

<sup>1</sup> Mr Lloyd George declared, as recently as March 10, 1915, that it was impossible to reopen valuations that had been finally completed. But he has always refused to state how many had reached that stage, and they are probably very few.

<sup>2</sup> For the year ended 31st March, 1914 [Cd 7572], p 144

public. This is a very delicate point, as the law requires that the sale must be made "in the open market by a willing seller," and it is very difficult to decide whether a property owner who is tempted by an unusually good offer is or is not a "willing seller." In the case of *Hornby v. Commissioners*<sup>1</sup> such a seller was held not to be willing in the requisite sense, and the price received was not accepted as evidence of actual value. On the other hand the case of *Glass v. Commissioners*<sup>2</sup> decided that if there were a probability of land being required for public use, the value of that probability must be added to the normal value of the land.

Judicial decisions were responsible for much of the delay in valuation in the past as well as at present. After the decision of the Valuation Appeal Court in Scotland, April 18, 1912, to the effect that assessable site value could in no case be a minus quantity, valuations were suspended in those parts of the country where feu duties and heavy ground rents are common. This decision was reversed by the House of Lords, May 2, 1913.<sup>3</sup>

Minus site value is of course merely a legal concept, without any counterpart in economic theory. It results from the method of valuation prescribed by the Finance Act, and occurs only when the net value of a property, after deducting the burden of fixed charges, is less than the value attributable to capital expenditures on the property. In such a case the actual site value may be, in fact must be, at least equal to zero;<sup>4</sup>

<sup>1</sup> LVIth Report of Inland Revenue, for the year ended 31st March, 1913 [Cd. 7000], p 160

<sup>2</sup> LVIIth Report of Inland Revenue [Cd 7572], p 162

<sup>3</sup> *Herbert's Trustees v Commissioners* ([1913] A C 326)

<sup>4</sup> If a building does not show a normal return on its cost of construction because of its poor location, that does not mean that the site value is less than nothing for if the

yet to the legal owner it is a minus quantity, so long as the surrounding circumstances remain unchanged. But it is obvious that if the value of the site increases, even if it does not become equal to or greater than the fixed charges, the owner benefits by the full amount of the increase, since his property is more valuable, while the fixed charges remain the same. Hence for the purpose of a tax on increment, minus site values are a perfectly legitimate device. For any other form of tax they are impossible.

The system of ascertaining site values by deducting various amounts from the total value does not commend itself to professional valuers, who usually prefer to estimate it directly, on the basis of sales of near-by property, or from a calculation of the profits that might be derived from it if properly developed. As the law is worded there is little difference in the results for the primary valuation, as on 30th April, 1909, save that, in the rare case of a site which would be worth more cleared than as it stands, it must be valued at the lower amount. But when it comes to a later valuation, on an occasion when Increment Duty is payable, according to the law any gain accruing to a dealer in land as a result of his skill at buying and selling is automatically accredited to site value and made subject to the tax. This results from the fact that site value under the act is a residuum; and if the total value is increased, while

site is poorly adapted to the building, so also is the building poorly adapted to the site, and the loss must be attributed to both. After a building is erected its cost has no further influence on its value, which is dependent on the principle of quasi-rent. The only limit to its depreciation is the value of its materials, minus the cost of demolition. Similarly, the minimum value attributable to the site is its value when cleared, minus the cost of clearing in case and to the extent that that cost exceeds the value of the material removed. This minimum can never be less than zero, for if it were the owner would abandon the property. Even if the property were a nuisance to neighboring sites it could not be worth less than zero, for the detriment attaches not to the ownership of the property but to its existence, and affects surrounding site values, but not that of its own site.

the deductible factors remain unchanged, the residuum must be increased. The Lumsden case, decided by the House of Lords, July 20, 1914, showed that even when there was admitted to have been no increase in the value of the site, Increment Duty might nevertheless be payable. The Government promised to remedy this unforeseen defect, by means of a one-clause bill limiting the duty to cases in which the bare site had really increased in value.<sup>1</sup> The outbreak of the war temporarily shelved the proposal, but the promise has never been withdrawn, and meanwhile no duty is being assessed in such cases.

The published figures of the results of the valuation are very meagre. In the first place the number of hereditaments included in provisional valuations made in Great Britain up to 31st May, 1914, was only 7,952,111 out of a total of approximately 10,500,000. The area valued by the end of the fiscal year 1913-14 was 35,466,901 acres, which equals only 63% of the total area of Great Britain. The geographical distribution of this land is not indicated, nor its classification as agricultural or urban. Up to June 30, 1914, 273,720 valuations had been served in Scotland, being about two-thirds of the total number of hereditaments. The figures for Ireland are not published, except the number of provisional valuations made, which was stated by Mr. Lloyd George in the House, June 22, 1914, to be 204,000, while there remained 120,000 to be served in cities, towns and urban districts.

<sup>1</sup> See H. C. Debates, May 4, 1914, column 27. At first the Government had maintained that this was not a defect at all, and tried to justify the special taxation of profits obtained from selling land "for more than it is worth at the time" on the ground that it was a "special gain incident to the ownership of land" and therefore, apparently, unlike other commercial transactions. Cf. White Paper Instructions, 21 January, 1911, H. C. Paper 238 (1911); and the letter of Mr. Lloyd George and speech of Mr. Finley quoted by Mr. Harold Cox in the *Edinburgh Review*, July, 1913, p. 248. Such a practice would entirely alter the principle of the increment duty, and have far-reaching consequences in discouraging building and raising rents.

The aggregate "Total Value" <sup>1</sup> on March 31, 1914, excluding minerals <sup>2</sup> was £2,953,412,359. This would indicate a total for Great Britain of about £4,000,000,000, if the same average per hereditament should be maintained. As a matter of fact the hereditaments valued have increased year by year in both area and value. The averages are as follows:—

Year				Area (Acres)	Total Value Per Acre (£)
On or before	March 31, 1911	.....		0.7	246
In year ended	" 31, 1912	.....		1.8	283
" " "	" 31, 1913	.....		4.7	418
" " "	" 31, 1914	.....		6.9 <sup>3</sup>	459

There is a striking contrast between the averages for England and Wales and those for Scotland. While the average area in the former is 3.95 acres, and the average value £417, the average area in Scotland is 11.8 acres, but the value only £298. The figures for 1913-14, which exclude mineral valuations, are: England and Wales, 5.1 acres, £485; Scotland, 16.7 acres, £322. The value per acre seems to be five times as great in England as in Scotland. It would be interesting to know how much of this is due to the Scotch system of feu duties.

As regards minerals, up to 31st March, 1914, the area of land included in the provisional valuations was 579,417 acres, and the aggregate total value £5,077,979, of which 469,154 acres and £4,724,491 were in England and Wales, the rest in Scotland. The value per acre is approximately three times as great in the southern kingdom as it is in the northern one.

<sup>1</sup> Total Value is roughly market value, disregarding the capital value of perpetual rents.

<sup>2</sup> Fixed charges on land are also deducted.

<sup>3</sup> Excluding mineral valuations.

On the whole the valuation department seems to have been fairly successful in attaining accuracy in all cases where there is no room for dispute as to what the law requires to be included in value. Most objections by owners are settled without a hearing before a referee; the total number of appeals against provisional valuations decided by referees up to March 31, 1914, was only 98, in respect of 420 hereditaments. In addition, 544 cases were withdrawn or otherwise adjusted, and 920 appeals remained unsettled on that date. The total number of hereditaments which had been the subject of notices of appeal was only 11/100ths of 1 % of the number of hereditaments valued. This proportion will be considerably increased by the recent decisions, especially as during the war the sixty days allowed for appeals is not deemed to run.

It is interesting to note that not all the appeals were, as one would expect, for an increase in assessable site value, in order to reduce as far as possible any future taxable increment. Some owners evidently feared that a direct tax on site values would soon be introduced, and therefore wished to be assessed on a low valuation.

But tho the valuers have been skilled and conscientious, their task has in many cases been too difficult for them. It is comparatively easy to agree on a value for any single item in the vast number of physical and legal factors which go to make up the market value of an estate, *if* the item to be valued can be defined. But it is a different matter to assign each one of these factors to the site or to improvements in such a way as to conform to any generally accepted canon of taxation.

Most of the difficulty has been in the valuation of agricultural land, which is not surprising, in view both of the confused provisions of the law and the inherent impossibility, for the vast majority of British farms, of



separating any real prairie value from the value added by the expenditure of labor and capital. In cases brought before the courts it has been decided that live hedges are improvements, but dykes and stone boundary walls, and sea walls not connected with buildings, are part of the site;<sup>1</sup> that the value of growing grass must be deducted to arrive at full site value, but the value of unexhausted manures and tillages, and the increased value due to the fact that land had been laid down to grass by the tenant, must not be deducted;<sup>2</sup> that in some cases private roads used in connection with buildings are deductible improvements, but other roads, not so used, or not deserving to be considered "structures," are not deductible. Similarly it seems that drains and water supply connected with houses must be considered as non-existent for the purpose of estimating site value, but land drains, culverts, dykes and ditches in the fields are existent; and that wood and wire fences about the homestead must in like manner be distinguished from wood and wire fences elsewhere on a farm.

The separate valuation of the site value or prairie value of agricultural land with any approach to accuracy is nearly impossible, since the cost of improvements—even when it can be ascertained, and a suitable allowance made for interest—bears no certain relation to the increase in value resulting from them, nor to the loss that would be occasioned by their removal.<sup>3</sup> Moreover, the smaller the unit of valuation, the less will be the difference in its value occasioned by the presence or absence of buildings and other improvements, for a small farm may often be added to an adjoining estate

<sup>1</sup> *Executors of Waite v. Commissioners* ([1914] 3 K B 196).

<sup>2</sup> *Commissioners v Smyth* (110 Times Law Reports, 819)

<sup>3</sup> The British tax attempts to exempt the actual value of capital invested; the German tax exempts capital expenditure, whether profitable or not

and not require much extra expenditure of capital, whereas a large farm must be fully equipped by itself. Any tax on pure land values would fall heaviest therefore on the smallest farms.

Besides being so extremely difficult, the separate valuation of agricultural property, except in the near vicinity of growing cities, is practically useless for the purpose of taxing the increment. Increment on such land is very uncommon, and when it occurs is very slow and uncertain, being usually due to changes in prices, not to the activities of the government or the increase in local population. Few persons have been so bold as to suggest taxing the farmers of England on their recovery from the agricultural depression, and in fact the act specifically exempts land with no other than agricultural value. Neither is the valuation of rural land of any use for the Undeveloped Land Duty; and as for the Reversion and Mineral Rights Duties, neither of them depends on the general valuation at all.

In addition to ascertaining the value of all land in the kingdom as on April 30, 1909, the Valuation Department must make a valuation on every occasion of a transfer by sale or gift or by a lease for more than fourteen years, or on the death of an owner. In the case of sales and leases the various values are deduced from the price or rent reserved. At the termination of a lease of over twenty-one years the value of the property must be calculated for the purpose of assessing Reversion Duty, both as it actually is and as it was at the beginning of the lease. Moreover the department values licensed properties for taxation and compensation under the Licensing Act, and occasionally does other work for other branches of the government.

It is almost needless to say that the cost of these valuations is very great. The total expenditure was

stated by Mr. Montagu, in the House of Commons, April 1, 1914, to have been £2,178,397 up to that date, and the estimate for the ensuing year was £843,614.<sup>1</sup> It is not likely that this estimate was too high, as the Government has never erred on the side of caution with respect to either the expenses or the receipts of the land values duties.

The cost of valuation in 1913-14, and the estimate for 1914-15 were made up as follows:—

DEPARTMENT	1913-14	1914-15
Inland Revenue . . . . .	£669,500	£761,718
Valuation Office, Ireland . . . .	16,400	17,396
Office of Works (for office rent) .	20,000	20,000
Rates on Government Buildings .	4,500	4,500
Stationery Office (for printing, etc.)	15,000	15,500
Post Office (for postage) . . . . .	20,500	24,500
	<hr/> £745,900 <sup>2</sup>	<hr/> £843,614

Adding the last sum to the cost up to April, 1914, will give £3,022,011 as the cost to the end of March, 1915.

The number of officials employed in the Valuation Department on March 31, 1913, was 4151, their salaries amounting to £492,626 per annum.<sup>3</sup> These figures had risen by January 1, 1914, to 4641 and £544,157 respectively. Of the employees at the latter date, 315, with salaries totalling £131,216, were classed as “permanent.”<sup>4</sup>

The land values duties, tho expected to have beneficial social effects, were nevertheless introduced with the expectation of yielding a large revenue; and certainly nothing but a very large revenue could justify

<sup>1</sup> Mr Montagu, April 6, 1914 (H C Debates, April 6, 1914, column 1636).

<sup>2</sup> Mr Lloyd George's estimate had been only £680,000 (H C Debates, April 17, 1913, column 2125)

<sup>3</sup> H C Debates, April 28, 1913, column 811

<sup>4</sup> H C Debates, February 17, 1914, column 782 It is expected that the number employed will be reduced by 1700 during the present fiscal year

them as a fiscal measure, considering their cost not only to the administration but also to individual land-owners. The latter item has been estimated as high as a million pounds a year,<sup>1</sup> and is certainly a very considerable sum. What revenue has in fact resulted ?

## II. THE FISCAL YIELD

(1) Let us first consider the Increment Value Duty. This from its nature would require some time to get into full running order, as it strikes only increment accruing after April 30, 1909. Nevertheless it was expected to produce a fair revenue in three or four years at the most. I append the budget estimates for each year, and the amount actually received:—

Year	1910-11	1911-12	1912-13	1913-14	1914-15
Budget estimate	£20,000	£50,000	£30,000	£20,000	£55,000 <sup>2</sup>
Net receipt	127	6,127	16,981	34,199	
Total net receipt, 1910-1914: £57,434					

The Increment Duty is technically a stamp tax. Each year the particulars of some 150,000 to 200,000 transactions involving land must be sent in to be stamped. The number of units of valuation in respect of which "occasion" valuations were made, based on the information thus received, was 316,721 in the year 1913-14, besides 8391 in Ireland. The proportion of assessments of duty, as compared with the number of valuations, was very small, being 1.8 % in Scotland and 0.9 % in England and Wales; but the proportion for all valuations in Great Britain from 1910 to 1914 was only 0.57 %.

<sup>1</sup> Mr E. Royds, in the House of Commons, June 20, 1912, and again June 24, 1914 Cf various publications by the Land Union for the details of particular cases

<sup>2</sup> Mr Lloyd George, in House of Commons, May 14, 1914

The number of assessments in 1913-14 was 3080, excluding minerals, and the average amount of duty assessed was in Scotland £47, in England and Wales £14. The average taxable increment in Great Britain was only £85, which, taken in connection with the figures in the preceding paragraph, shows that land is not such a profitable investment as the single-taxers would have us believe.<sup>1</sup> The average taxable increment discovered by all the valuations made for this purpose, 1910-14, was less than ten shillings. There were also in 1913-14, 61 assessments in respect of minerals, averaging £29 each.

The cost occasioned to landowners by this duty is considerable, whether or not they are called upon to pay anything to the state. The usual solicitor's fee is a guinea for getting the papers stamped, and this item alone probably exceeds the net receipt of the tax. In addition the delay in assessing the duty is very annoying, but possibly this will disappear when the original valuation is completed.

(2) The second of the land values taxes is the Reversion Duty, a tax of 10% on the benefit to a landlord derived from the expiration of a lease, of twenty-one years or more, of property (not merely the site) which has risen in value. This requires two valuations on each occasion, viz: the value as at the grant of the lease, ascertained by reference to the rent reserved and other payments made in consideration of the lease, and the value at the determination of the lease estimated in the usual manner. The two most important judicial decisions affecting this duty are that in the case of *Earl Fitzwilliam*,<sup>2</sup> which was to the effect that the value of a

<sup>1</sup> In Ireland, owing to the different system of land-registry, particulars are not required of every transfer. The proportion of assessments to the total number of transfers, excluding transfers on the occasion of a death, was about 1.7%; the average duty assessed about £10.

<sup>2</sup> 83 Law Journal Reports, 1076.

public-house license must be included in the value of the reversion; and that in the Marquis of Camden's case,<sup>1</sup> which decided that "payments made in consideration of the lease" were not only those paid to the lessor, but might also include sums expended on buildings or other improvements. It is of course obvious that a lessor who expects to receive a good building at the expiration of the lease will be willing to grant a corresponding reduction in the annual rent. These cases and others caused much delay in the collection of the duty, which was also hindered in its operation by the fact that the general land valuation was not completed. Its estimated and actual yields are as follows:—

Year	1910-11	1911-12	1912-13	1913-14	1914-15
Budget estimate	£90,000	£50,000	£125,000	£100,000	£130,000
Net receipt	257	22,621	47,974	80,435	
Total net receipt, 1910-1914: £151,287					

The number of accounts rendered for this duty, up to March 31, 1914, was 7443, plus 129 in Ireland. The number of accounts dealt with by the Valuation Department was 5224. The number of assessments to duty was 3562, plus 30 in Ireland, and the duty assessed £216,486 and £4609 respectively. The fact that nearly one-third remained unpaid was ascribed by the Commissioners to the decision in the Camden case.

The number of valuations for Reversion Duty made in the year ended 31st March, 1914, was 2405 in Great Britain and 24 in Ireland. The "aggregate value of benefit accruing to lessors" was £1,840,592 in the former and £18,407 in the latter.<sup>2</sup> The average benefit, disregarding minus quantities, from the beginning up to 31st March, 1914, was:—

<sup>1</sup> 30 Times Law Reports, 681.

<sup>2</sup> In some cases there was a loss, not a gain.

England and Wales .....	£914
Scotland .....	211
Ireland .....	500

The principle of the Reversion Duty seems to be justified in a country like England, where long leases of urban lands are so common; since in many cases the landlords receive in their reversions much greater values than they have either expected or deserved. It has been suggested, however, that taxing the lessor on his reversion should involve also freeing the lessee from his present burden of income tax on wasting assets,<sup>1</sup> for as the end of the lease approaches the lessee is now taxed on capital which is passing from his control. But I suspect that most shrewd business men run their business with the conditions of the lease in mind, and what they lose here they make up by paying less rent or spending less on repairs.

As the law now stands there are several ways in which this duty may be evaded. The simplest is by arranging for a series of twenty-year leases instead of one longer one. Another way is to demise the reversion, for a period of less than twenty-one years, to a third party who will then cede it back to the lessor. It is also possible to minimize the taxable benefit by stating in the lease that the expenditure of the tenant on repairs is part of the consideration.<sup>2</sup>

Other methods of evasion not so dependent on legal jugglery are to build more cheaply or to spend less on maintenance, so that the value of the reversion will be less, while a higher annual rent is paid. Or else a very long lease can be granted which will postpone the payment, and only in a very few cases will the increase in site value be great enough to offset depreciation and the

<sup>1</sup> J. C. Stamp, in *Economic Review*, July, 1911.

<sup>2</sup> Cf. article by W. J. L. Ambrose in *Law Quarterly Review*, April and July, 1914.

saving in interest. Probably this duty will have no effect on occupier's rent, as the total payments, actual and anticipated, by the builder will not be appreciably increased. There will be a slight tendency for landowners to demand more, and their demand may be effective, since by building for themselves they might escape the duty. But as few landowners would actually be willing or able to build, and as the duty is a future one and uncertain in amount, frequently being no more than a tax on windfall, little increase in ground rents need be anticipated on this account. The duty may, however, be expected to check leasehold enfranchisement, since it is payable on the purchase of a reversion by a head lessee, or on the purchase of a lease by the reversioner, and again when a sub-lease determines.

(3) The total area of undeveloped land included in valuations made up to March 31, 1914, was 942,115 acres, of which some 800,000 acres have been assessed to the Undeveloped Land Duty. Its assessable site value, before making allowances, was £182,612,826.<sup>1</sup> The bulk of the land liable to this duty has now been valued, tho with what precise conformity to law remains to be seen.

The Finance Act required that undeveloped land duty for any year be assessed within three years of its close. This has hitherto proved impossible, and in consequence a certain amount of duty has been lost for both 1909-10 and 1910-11. The exact figures cannot be given, because in any case there would have been a large exemption of land that was restricted by agreements in force April 30, 1909. The proportion of land so restricted has naturally declined, being 31 % in the year 1913-14. The assessment and collection of this duty have been

<sup>1</sup> In Ireland there were 26,410 acres, with a site value of £4,178,630



The duty assessed before March 31, 1914, for each year was:—

The first two years' figures are now complete.

	1910-11	1911-12	1912-13	1913-14	1914-15
Budget estimates	£280,000 <sup>1</sup>	£200,000	£100,000	£325,000 <sup>2</sup>	£230,000 <sup>3</sup>
Net receipt	2,351	28,947	97,852	274,916	
	Total net receipt, 1910-1914: £404,066				

<sup>1</sup> Includes £140,000 arrears

<sup>3</sup> Includes £150,000 arrears

<sup>2</sup> Includes £240,000 arrears

It is difficult to believe that more than a very small proportion of this can be simply due to arbitrariness on the part of the owner. It is merely an indication that building is continually carried up to the margin of profit, and that it is not the cost of land that determines the profit; for obviously, after a building is erected, the cost of land cannot affect the tenant's rent. On the contrary it is the rent anticipated that determines the value of land. Wherever the value so determined is reasonably large, the landowner is under a constant pressure to sell, in order to realize his income. If he does not, his reasons are as likely to be good as bad. If he awaits a further rise in value, is it not to the public advantage that all land should be devoted to its best use? If he wishes to keep the land as a garden, that, too, frequently benefits the public. Moreover all the land fit to build on cannot be built on at once, for there would not be enough people to occupy the buildings.

This duty is equivalent to a tax of about 4% on the use of potential building land for any purpose other than those specifically exempted in the law. For the reasons just mentioned it cannot be avoided to any great extent by building, except perhaps by building cheap or temporary structures, and the main burden must fall on the owners. Since, however, it is not a permanent burden, it will not be capitalized in the usual manner of land taxes, altho it will temporarily reduce the selling price. And in fact it seems to have had that effect.

(4) The Mineral Rights Duty has nothing whatever to do with the land valuation. The Reversion Duty, tho not directly dependent on the Domesday valuation, is probably made easier to administer by it; and at all events it depends on the activity of the Valuation De-

partment. But the Mineral Rights Duty is simply an additional income tax of one shilling in the pound on the rental value of all rights to work minerals and of all mineral wayleaves. On this point Mr. Lloyd George stated in the House of Commons:<sup>1</sup> "I agree that the Mineral Rights Duty is not a subject of valuation. . . . It would not be fair to use that for the purpose of proving that land valuation costs less than the yield of the land taxes."

The Mineral Rights Duty is assessed on the proprietor or on the immediate lessor; the latter may make a proportionate deduction from the rent. It is not charged on common clay, earth, sand, chalk, limestone, or gravel. Minerals are not subject to Undeveloped Land Duty, nor to Reversion Duty so long as they are being worked. Increment Duty is much modified in its application to minerals, being based on the excess of actual rental value over 8% of the capital value of the minerals on April 30, 1909.

As a tax this duty is fairly satisfactory, both in principle and in results. There is much to be said in favor of the state's sharing in the profits of exploiting natural deposits, provided enough is left to stimulate private enterprise. The tax was easily administered, and soon reached a normal condition. The net receipt has been:—

1910-11 . . . . .	£506,290 <sup>2</sup>
1911-12 . . . . .	436,193
1912-13 . . . . .	273,915 <sup>3</sup>
1913-14 . . . . .	345,343

The estimate for 1914-15 was £310,000.

This duty resembles the others in one respect: it has suffered in the courts. The cases of the Duke of Beau-

<sup>1</sup> H C Debates, May 14, 1914, column 1354

<sup>2</sup> Includes duty for 1909-10

<sup>3</sup> Reduction was due to (a) delay in assessment, (b) coal strike, (c) judicial decisions

fort *v.* The Commissioners, and of the Marquess of Anglesey *v.* The Commissioners,<sup>1</sup> decided that Income Tax must be deducted before reckoning the Mineral Rights Duty. In consequence a large amount had to be repaid, and the revenue from this source suffered a permanent diminution of some 6 %. The tax differs so greatly from the others in the group that it should be considered separately; and hereafter when I speak of the "land values duties," this one will not be included.

The total net receipt from the three duties dependent on valuation was £612,787 up to March 31, 1914;<sup>2</sup> the cost of valuation and collection was £2,178,397.

In extenuation of this amazing deficit it is maintained that the work of the Valuation Department has justified its existence by increasing the yield of the Death Duties. From April 1, 1910, to March 31, 1914, the official valuation of real property passing on death averaged 6.16 % greater than the valuation brought in by the accounting parties.<sup>3</sup> In Ireland, during the period from September 1, 1910, to March 31, 1914, the increase averaged 5.26 % of the total value of real property passing on death.

But there are three reasons why the present Valuation Department cannot be given all the credit for this. (1) The department charged with collecting death duties has always succeeded in increasing the valuations of estates. To quote the fifty-seventh report of the Commissioners of Inland Revenue (p. 146): "Prior to

<sup>1</sup> [1913] 3 K B, 48

<sup>2</sup> Between April 1, 1914, and March 31, 1915, the amount paid into the treasury on account of the Land Value Duties, including the Mineral Rights Duty, was £412,000. During the previous year it was £715,000. No details are available for the separate duties, but it seems likely that the duty on minerals furnished the greater part of the amount. The estimate for 1915-16 is £350,000.

<sup>3</sup> This figure is really too favorable, as the early valuations included selected properties of which the department had notice in 1909-10, which yielded a more than average increase. Cf. the fifty-seventh report, p. 146. The proportion in 1913-14 was 5.18 %, in Ireland 5.26 %.

the introduction of expert valuers *in the spring of 1909*,<sup>1</sup> the increase obtained by the then existing organization was an average of 3% upon the whole real property passing." (2) The department was so reorganized in the spring of 1909, a whole year before the passing of the Finance Act, that at a trifling cost it performed the necessary valuations nearly as well as now. The department thus reorganized was described by Mr. Lloyd George in the House of Commons, October 29, 1909, as being "efficient"; and the report of the Commissioners of Inland Revenue for 1909-10 attributes to it a "substantial increase" in the yield of the duties.<sup>2</sup> (3) The land values duties, by reducing the value of land, especially in cities, have diminished the value of property passing on death and consequently the yield of the death duties. The extent of this effect cannot be ascertained, but that it is so seems indisputable, both on the grounds of theory and from the testimony of landowners. Even if land values were previously over-estimated, as was frequently the case, they at least paid higher death duties on that account.

However the apologists for the Valuation Department do not attribute to it an increase of more than £900,000 in the yield of the death duties up to March 31, 1914, and £325,000 for the ensuing year. Adding this to the land value duties, but excluding of course the Mineral Rights Duty, we still find a deficit of £665,000 on April 1, 1914, or an estimated deficit of £770,000 on the same date in the present year. As far as can be estimated from the weekly reports of the Treasury, the deficit

<sup>1</sup> Italics my own

<sup>2</sup> Amounting in one week to over £100,000 Cf House of Commons Debates, October 29, 1909 In fact, as far as proportions go the increase was apparently greater under this arrangement than it has been since, for it was only 6.16% between April 1, 1910 and March 31, 1914; but Mr Montagu stated in the Times, May 7, 1914, that from May, 1909, to March 31, 1914, the average increase was 6.31%, of which he admitted 3% would have been obtained anyway.

must be increased some £200,000 because of the falling off in the revenue from the land value duties since the beginning of the war.

The taxes brought in by the other activities of the Valuation Department are hardly worth mentioning. It makes valuations for the stamp duty on property passing by gifts *inter vivos*, but the revenue derived in consequence cannot be stated and is certainly small.

There has been some talk of using the site values obtained as the basis of taxes or rates on the single tax principle. Besides their inherent inaccuracies, and those due to the failure of many owners to claim their full legal rights, these values are now six years out of date, and to use them for that purpose would be extremely unfair.

It is said also that the costs of the valuation must be regarded as a capital expenditure, and that deficits in the first few years will not prevent its being profitable in the long run. There is some truth in this argument, but it makes little difference, for the valuation once established is not perpetual. A revaluation is required every five years for the Undeveloped Land Duty;<sup>1</sup> and for the other two duties property must be revalued every time it is transferred, or every fifteen years if owned by a corporation. It is safe to assert that after fifteen years the worth of the present valuation from a fiscal point of view will be very slight, and that after thirty years it will have no usefulness at all except for historical purposes. And in any case interest should be charged on the cost, if it is a capital expenditure. Taking the most reasonable estimate of the net cost, nearly £130,000 a year will be required to pay it off in twenty-five years with interest at 4%. The annual yield of the duties

<sup>1</sup> No attempt has been made to carry out the first of these valuations, which was due in 1914

cannot be expected to average more than £1,000,000 during the next twenty-five years, especially as the war will have a bad effect on land values. The costs of administration may run as high as £250,000, and can hardly be less than £150,000 per annum.<sup>1</sup> Consequently in the period from 1910 to 1940 the cost of collecting these duties will average from one-fourth to one-third of their total amount. The average cost of all duties collected by the Inland Revenue Department fluctuates from year to year between 2 and 3½ %.

So far only the cost to the government has been considered. There is also a great loss to landowners, whether taxable or not. Transactions are delayed or prevented by the fact that the amount of duty payable on the property is unknown. Legal expenses are greatly increased, and owners also often find it necessary to employ expert valuers to test or oppose the official valuation. In addition to these actual costs there is the dread of more to come.

### III. SOME CONCLUSIONS

In the opinion of an overwhelming majority of builders and dealers in land, the land values duties are largely responsible for the remarkable decline in the number of new buildings annually erected. They are not the sole cause, for there is reason to believe that building was carried to excess in the years preceding 1907, and a reaction would normally be expected. The proponents of the duties declared, however, that they would stimulate building, by reducing the price of land. There can be no doubt that land values have fallen, and mortgages and other forms of investment in land have

<sup>1</sup> Cf the salaries of the permanent officials, p 803, above It is impossible to get an official estimate on this point

lost their popularity since the famous budget was introduced. Whether or not the values set on estates by the government valuers were too low, they certainly were the cause of much calling-in of mortgages, and builders have ever since had much more difficulty in obtaining capital. At the same time they require higher profits to offset the increased taxes and risks. The result is shown by the following table, compiled from the Inland Revenue reports on Inhabited House Duty.

ANNUAL INCREASE IN THE NUMBER OF PREMISES IN GREAT  
BRITAIN

Year Ended March 31	" Separate Dwellings " and Houses of Less than £20 Annual Value	All Premises, Except Farm Buildings and Certain Property of Corporations
1903 . . . . .	88,344	128,701
1904 . . . . .	41,549	161,586
1905 . . . . .	101,205	149,594
1906 . . . . .	112,838	169,042
1907 . . . . .	80,471	128,998
1908 . . . . .	79,950	115,990
1909 . . . . .	73,260	112,222
1910 . . . . .	87,181	114,420
1911 . . . . .	10,651	48,959
1912 . . . . .	80,165	114,858
1913 . . . . .	46,250	73,760
	Annual Average, 56,062	Annual Average, 87,999

Part of the slump shown in the first column for 1911 may be attributed to the general revaluation of that year, which raised some houses hitherto exempt into the tax-paying class. But the figures in the second column cannot be so explained, as the total number of premises could not be perceptibly reduced by a revaluation, and the last previous valuation, in 1904, had no such effect. According to the census of 1911, the number of houses uninhabited, or being built, in proportion to the number of inhabited houses, was the smallest since 1861.



It would seem that the new taxes, instead of increasing housing accommodation, have reduced it. It is probable that, unless the single tax agitation keeps on, this initial effect will wear away, if indeed it has not already done so. Increased wages and costs of material are certainly to blame for much of the cessation of building, and even in spite of these obstacles there was a revival in the first half of last year.<sup>1</sup> A change of government would do much to reassure builders, even if the duties were not repealed. But no such change is probable in the near future, and the war upsets all prophecies.<sup>2</sup>

The final incidence of these duties can never be objectively demonstrated. Economic reasoning leads to the conclusion that the undeveloped land duty will probably cause a good deal of hasty and ill-planned construction, such as we are so familiar with in America; but that in the main it will fall, or has fallen, on the owners at the time being (in 1909), by reducing the capital value of the land. After all it is only equivalent to a general property tax rate of two dollars in the thousand.

The Increment Duty and Reversion Duty, in so far as they fall on unforeseen and unearned increments, will be borne by the recipients of those increments; in so far as the increment is anticipated the tax will also be anticipated.<sup>3</sup> There is also some danger that land developers working on a large scale may be called on to pay increment duty on part of their property, when the scheme as a whole is a failure; but this could be provided against by amending the law.

<sup>1</sup> Cf Board of Trade Labour Gazette for a quarterly report of the value of building plans passed in ninety urban districts.

<sup>2</sup> The present coalition, being for war purposes only, has no effect on the Land Values Duties.

<sup>3</sup> Cf J. C. Stamp, "The Incidence of Increment Duties," in *Economic Journal*, June, 1913

It must not be hastily assumed that the failure, so far, of the new British system of land taxes proves that an increment duty is essentially impracticable. The German local increment taxes are proof to the contrary. The chief reasons which explain the lack of success of Mr. Lloyd George's scheme are the following:—

1. The complicated system of land tenure in Great Britain.
2. The fact that hitherto annual value and not capital value had been the basis of taxation, necessitating a valuation *de novo*.
3. The inclusion of the whole country in the valuation which greatly increased the cost; altho practically no revenue can be expected outside of urban districts.
4. The great expense of administering the tax as a national one instead of locally.
5. Errors and omissions in the law.

The first two do not concern us in the United States. The importance of the third and fourth will vary from state to state, and will be much modified in those regions where the existing valuations are reasonably accurate. With regard to the fifth we should at least have the benefit of British experience.

In my opinion the experiment of an increment tax would be well worth trying, if it could be kept separate from the dangerous and delusive proposals for taxes on site values and the other varieties of Single Tax. A reversion duty might be useful in some parts of the country in order to reach one kind of increment, but we need no more taxation of undeveloped land than we already have under the general property tax. The only valid objection to such a reform would rest on its cost in relation to the income derived from it, a problem which

varies from country to country, and can be finally solved only by experiment. If this objection can be proved untenable, there is no theory of justice in taxation, so far as I am aware, that does not logically require unearned increment to be specially taxed.<sup>1</sup>

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<sup>1</sup> Besides the references in the preceding notes, mention should be made of an article by J C Stamp in Conrad's Jahrbucher for 1912, "Ueber die Reform der Grundsteuer in Grossbritannien" The most detailed official account of the conduct of the valuation will be found in the fifty-fourth report of the Commissioners of Inland Revenue [Cd 5833 (1911)]